RESPONSE
to the
1985 REPORT
of the
AUDITOR GENERAL

July 1985

Province of British Columbia
Ministry of Finance

85-5833/

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British Columbia Cataloguing in Publication Data

British Columbia. Ministry of Finance.
Response to the ... report of the Auditor General. -- 1980-

Annual.
Report for 1985 covers the fiscal year 1983/84.

ISSN 0711-9054 = Response to the ... report of the Auditor General - Ministry of Finance (Victoria)

1. British Columbia. Office of the Auditor General. Report of the Auditor General. 2. Finance, Public - British Columbia - Accounting - Periodicals. I. Title.

HJ9921.Z9B73a 354.7110072'32

Rev. June 1985

RESPONSE TO THE 1985 REPORT OF THE AUDITOR GENERAL

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Statement by The Honourable Hugh A. Curtis on the 1985 Report of the Auditor General

I am pleased to present the government's response to the *1985 Report of the Auditor General*. I appreciate the independent evaluation of the government's system of financial management provided by the Auditor General, and recognize her recommendations as an important factor in improving that system. This document describes action that is being taken in order to address those recommendations.

Many major initiatives to improve financial controls in government have been implemented in recent years, including new legislation, new policies and new financial systems . In this atmosphere of change, the contribution made by the Auditor General is even more valuable.

I am confident that the Province of British Columbia is successfully making the transition to modern financial administration called for with the passage of the new *Financial Administration Act* at the beginning of this decade. In this regard, I wish to give credit to the high degree of professionalism exhibited by public sector managers in making this change.

Hugh A. Curtis
Minister of Finance

MANAGEMENT OVERVIEW

Since the first *Report of the Auditor General* in 1978, the Province of British Columbia has made great strides in the management of the financial function. Modern legislation has been enacted, policies and procedures have been developed, and the trend towards decentralization of accounting and reporting functions to the ministries is well established.

One of the more significant events during the year was the introduction of new general ledger computer software into the Central Accounting System. As a result, the foundation has been laid for a system which can provide excellent control, as well as being more flexible, more responsive and more capable of providing financial information. A number of ministries which are using the new general ledger software participated with the Ministry of Finance during its installation. Further improvements to the central system are planned during the current fiscal year.

During the past year, the Internal Audit function has been strengthened in government through the establishment of Internal Audit units in several ministries. In addition, the financial audits of Federal/Provincial Agreements have been contracted to private sector accounting firms, thus permitting a stronger focus on controls auditing by the Internal Audit Division of the Office of the Comptroller General.

The Office of the Comptroller General continues to give priority to assisting ministries to strengthen their financial management and control systems. Consistent with this priority, an increased emphasis has been placed on the implementation of audit recommendations in the ministries.

The training of financial officers and line managers in good management is considered essential. In this respect, the Government Financial Management and Control Course continues to play a key role in the development of a competent and professional financial community in government. In the past year, the Office of the Comptroller General has also assisted ministries to establish their own control workshops, custom designed to meet the unique needs and problems of individual ministries.

A new classification system for Financial Officers, intended to more clearly define positions and responsibilities of financial personnel in government, was also approved during the year. It is anticipated that implementation will commence during the current year.

The following *Response to the 1985 Report of the Auditor General* outlines the government's progress in responding to problems identified by the Auditor General in her most recent annual report to the Legislative Assembly. Cross references to the *1985 Report of the Auditor General* are made in the righthand margin of this volume.

Section, Subsection	Auditor General's Reference (1985 Report)

C. FINANCIAL STATEMENTS

C 1. Presentation of Government Financial Statements

P. 14
2.6-2.10

The principal users of the Public Accounts are the members of the Legislative Assembly. The statements as presented in Section A of the Public Accounts provide members with important, summary information regarding the financial position of the Province. The utility of these high level statements was discussed with the members of the Select Committee on Public Accounts and Economic Affairs in 1984. They considered them to be of value.

C 2. Entities in the Consolidated Financial Statements

P. 14-15
2.11-2.14

A matrix of Government entities and criteria for consolidation of the financial statements has been completed. It is anticipated that changes will be incorporated into the 1984/85 Public Accounts.

C 3. Section 88 Balances

P. 15
2.15-2.17

The wording of a note disclosing the amount of unapplied claims made under Section 88 of the *Forest Act* has been agreed between the staff of the Auditor General and the staff of the Comptroller General. This note will be included in the 1984/85 Public Accounts.

Section, Subsection	Auditor General's Reference (1985 Report)

D. GOVERNMENT ACCOUNTING POLICIES

D 1. Capital Financing Authorities

P. 16-17
3.3-3.10

At the Comptroller General's request, a national firm of Chartered Accountants has undertaken a review of the government's accounting policy as it relates to the consolidation of the Financing Authorities. On the basis of this review, and subsequent consultation with members of the Auditor General's Staff, a report and recommendations on this matter have been presented by the Comptroller General to Treasury Board for its consideration.

D 2. Recoveries

P. 17-18
3.11-3.15

The Ministry of Finance is in agreement with the comments of the Auditor General regarding the recognition of recoveries and revenues in the Estimates and in the Public Accounts. Senior officials in the Office of the Comptroller General and Treasury Board Staff have initiated a project to review the alternative methods of accounting for these monies.

Development of a clear policy is expected to be completed this year.

D 3. Recognition of Revenues from Crown Corporations

P. 18
3.16-3.17

The accounting for revenues from Crown corporations derived from their operations has been consistent with the policy of recognition upon receipt of the dividends.

An apparent inconsistency with this policy exists in the case of British Columbia Petroleum Corporation, whose activity is one of royalty collection rather than a truly commercial enterprise. Because of this, the revenues administered by the Corporation have been accrued.

A statement of policy to this effect has been developed and is under discussion with members of the Auditor General's staff.

D 4. Commitments

P. 19
3.18-3.21

The *Financial Administration Act* states that commitments shall be contained in the financial statements "pursuant to agreements existing at the end of (the) year".

P. 19
3.18-3.21

Government policy, as stated in the Public Accounts, is that the consolidation is based on the audited financial statements of the Crown corporations as at their respective fiscal year ends. These statements are, as attested, produced in accordance with generally accepted accounting principles, but the Canadian Institute of Chartered Accountants' Handbook is open to differing interpretations on this matter. Section 3280 requires that contractual obligations be noted in financial statements, but does not restrict this disclosure to agreements already in existence.

The Auditor General is correct in noting that, as commitments for some Crown corporations include estimated or approved costs, there is some inconsistency in the Notes to the Consolidated Financial Statements. The status of commitments in the financial statements of the Crown corporations is not always clear. Accordingly, requests have been submitted to the Crown corporations in question that they differentiate between "contractual" and "soft" commitments. Only the former will be included in the Consolidated Financial Statements.

Section, Subsection	Auditor General's Reference (1985 Report)

E. FINANCIAL CONTROLS

E 1. Expenditure Recoveries

P. 20 4.4-4.7

It is not correct to state that Government accounting policies prohibit an excess of recoveries to be credited to a Vote without Treasury Board approval. Once a recovery account has been approved, there is nothing in policy limiting the amount credited to it. However, Treasury Board approval is required should a ministry wish to spend those excess recoveries.

There were instances where ministries did expend those excess funds without Treasury Board approval. The capabilities of the new central accounting system are being examined to make provision for separating out expenditures and recoveries within a Vote in order to permit improved monitoring and control of recoveries.

The Auditor General also expressed concern regarding recoveries which had been credited to votes for which there were no approved recovery provisions. Procedures for setting up the Chart of Accounts of the Province are being reviewed to ensure that recovery accounts cannot be opened without the appropriate legislative or Treasury Board approval.

E 2. Treasury Board Authorizations — Reallocations of Funds

P. 21 4.8-4.10

The importance of complying with policy on this point is recognized. The Minister of Finance wrote to his colleagues late in 1984 reemphasizing that authority must be requested from Treasury Board before expenditures are reallocated among ministry programs or categories of expenditure.

It is also a priority of the Office of the Comptroller General that reports be developed which compare actual expenditures to budget at the pool of standard object, or sub-vote level. This will permit the improved monitoring recommended by the Auditor General.

E 3. Control of Government Bank Accounts

P. 21 4.11-4.13

Efforts continue to be made to ensure that ministries comply with Treasury Board policy regarding control over opening, closing and operating bank accounts. Compliance is improving. The discrepancies as a percentage of the total number of bank accounts have been reduced to less than 1% during the 1984 review. Of the 21 bank accounts in question, many had a zero balance. Where there was a small balance, the balance was recorded by the Ministry and reflected in the Public Accounts.

A new automated central bank account registry (CBAR) has been designed and was fully implemented by February 15, 1985. New procedures for verification and editing of updated bank accounts should minimize errors on the central record.

The Deputy Minister of Finance has written the Deputy Ministers of the other ministries to remind them of the emphasis that should be placed on this issue.

Provincial Treasury is also conducting semi-annual audits with ministries and provincial financial institutions, and has tabled a document entitled "Banking Guidelines" which clearly outlines the responsibility of financial institutions to ensure proper authorization is obtained when opening and closing government bank accounts.

Section, Subsection	Auditor General's Reference (1985 Report)

E 4. Banking Practices for Trust Funds

P. 21-22
4.14-4.17

All Trust Funds are accounted for separately in the government's central accounting system. Although segregated from an accounting point of view, in order to maximize the return on the assets of these trusts the daily cash balances in each are put to work with the government's own cash in short term investments.

A study will be done on the trust accounts referred to by the Auditor General to determine whether a change in treatment is warranted.

E 5. Control over Custodial Deposits

P. 22-23
4.18-4.20

Five ministries were deficient in the control over custodial deposits. The status of corrective action is as follows:

- Of the three ministries which had inadequate ministry records of custodial deposits received, only one ministry has not completely resolved the problem. However, adequate records should be in place by the end of the current fiscal year.
- Of the two ministries which incorrectly recorded cash deposits in the consolidated revenue fund of the Government rather than in trust funds, one ministry is developing policies and procedures which will resolve the problem by October, 1985. The other ministry will begin work on these procedures in the near future.
- Of the three ministries which were deficient in the reconciliation of ministry records to the periodic listing from the Ministry of Finance of deposits it held in trust for the ministry, only one ministry has not completely resolved the issue. That ministry will have its solution in place before the current fiscal year end.
- Three ministries failed to ensure a sufficient degree of control over term deposits, as required by policy. One ministry has completely resolved the issue through the implementation of new procedures and a computerized monitoring system. The other two ministries are developing improved procedures which will resolve the issue by October, 1985.

In addition to the initiatives taken by ministries, policy directives on performance bonding are currently under development in the Office of the Comptroller General.

E 6. Authorization of Investments

P. 23
4.21-4.25

Revisions to the *Financial Administration Act* have been proposed to remove any ambiguity regarding the legality of the investments to which the Auditor General is referring. Until such legislation has been passed, the Province will not be making such investments.

The Auditor General's reference to improper disclosure of these investments in the financial statements is a result of the same differing legal opinions regarding their status. The form of reporting of these call loans will be reviewed should such investment resume as a result of changes to the *Financial Administration Act*.

E 7. Other Areas Requiring Financial Control Improvements

P. 23-24
4.26-4.30

To support the initiatives taken by the ministries to improve financial management and control, the Office of the Comptroller General has provided assistance in the form of teams expert in the development of financial procedures and controls. The teams rely heavily on recommendations made by auditors at all levels as a means of ensuring effective use of the resources available.

Section, Subsection	Auditor General's Reference (1985 Report)

E 7.1 Systems Documentation

P. 24
4.31-4.32

Of the 11 entities referred to by the Auditor General under this heading, eight were actually ministries. The remaining three were segments of a ninth ministry which were handled separately for the purpose of the Auditor General's report. Of these 11 entities:

- four have completely resolved some of the issues and are in the process of completing resolution of the balance;
- five have remedial action in progress with completion dates ranging from September, 1985 to March, 1987;
- one is still reviewing the issue raised by the Auditor General, and
- one has not taken action on the recommendation because to do so would greatly increase operating costs. When a more economical solution is identified the ministry will make the necessary changes.

E 7.2 Systems Integration

P. 24-25
4.33-4.34

Of the 12 entities which needed to improve the integration of their financial systems:

- seven have completely resolved some of the issues and will have the remaining issues resolved during the current fiscal year;
- four have remedial action in progress for all the issues which affect them. Completion dates range from September, 1985 to March, 1987, and
- one is still reviewing the issue raised by the Auditor General.

E 7.3 Third Party Verificatioe Procedures

P. 25
4.35-4.36

Of the six ministries which needed to increase the extent of their verification of supporting information contained in accounting records of individuals and organizations outside Government:

- one ministry has implemented the necessary procedures to bring about the needed improvement, and
- five ministries are in the process of developing required procedures and/or attempting to increase the resources which could be allocated to the verification process.

E 7.4 Revenue Signing Authorities

P. 25
4.37-4.38

Of the eight ministries whose revenue authorities matrices were not complete:

- two have completely resolved the issue;
- three will have all the requirements in place by September, 1985, and
- the remaining three will have completed the requirements by March, 1986.

E 7.5 Prompt Revenue and Receivables Recording

P. 25
4.39-4.40

Of the eight ministries which were not following policies and procedures for revenue and receivables recording:

Section, Subsection	Auditor General's Reference (1985 Report)

- three ministries have made the changes needed;
- four ministries are in the process of resolving the problem. Of these, two will be complete by September, 1985 and the other two will have the necessary changes made before March, 1986, and
- one ministry has the issue under review and is awaiting the acquisition of new staff before commencing remedial action.

E 7.6 Revenue Accounting Records

P. 25-26
4.41-4.43

Of the ten ministries whose revenue control systems were considered inadequate:

- three have upgraded their systems, thereby eliminating the weaknesses identified;
- three have resolved some of the issues raised by the audit report and will have the balance of the issues resolved by March, 1986;
- three have started remedial action, with two projecting completion by September, 1985 and the other by March, 1986, and
- one ministry is awaiting the arrival of additional staff before starting development.

E 7.7 Expenditure Authorities

P. 26
4.44-4.45

Of the seven ministries involved in expenditures which lacked proper ministry authorizations:

- three have taken the necessary action to improve the process;
- one has resolved the issues it can, and is obtaining legal clarification with respect to the remaining issue, and
- three ministries are in the process of correcting the situation. Solutions will be completed during the period July, 1985 to March, 1986.

E 7.8 Expenditure Accounting Records

P. 26
4.46-4.48

The ministries are responsible for ensuring that documentation attached to payment requisitions is accurate and complete. The initial payment of an account is made based on the certification of the spending and payment authorities of the ministry as indicated by their respective signatures on the front of the voucher.

A thorough post-audit is conducted by the Office of the Comptroller General using a statistical sample of the cheque vouchers processed. Specific problems are referred to the ministries for correction. Compliance review reports are provided to ministries on a regular basis so that they are kept advised of their performance, and can take action to correct obvious areas of weakness.

Seven ministries were identified as having inadequate expenditure accounting records and/or inadequate expenditure supporting documentation. Of the seven ministries:

- two have completely resolved the issues raised by the Auditor General;
- three have resolved some of the issues and plan to have the other issues resolved by March, 1986, and
- two ministries have their solutions under development.

Section, Subsection	Auditor General's Reference (1985 Report)

E 7.9 Payroll Accounting Records

P. 27
4.49-4.52

The pay offices of seven ministries were making payments without adequate supporting documentation, committing calculation errors and/or inappropriately applying the terms of employment agreements. Of the seven ministries:

- three have taken action to completely resolve the issues;
- one has resolved some of the issues and the balance will be completed by December, 1985, and
- three are in the process of resolving the problems and should have satisfactory solutions in place by March, 1986.

It should be noted that in some cases the number of incidents of error was quite low.

The Auditor General also suggested that manuals related to personnel and payroll matters be reviewed with the intention of integrating them. The consolidation of manuals related to personnel and payroll matters will be undertaken by the Government Personnel Services Division of the Ministry of the Provincial Secretary and Government Services.

All instructions issuing from the Office of the Comptroller General regarding payroll have been consolidated in the Payroll Manual; new amending procedures have removed the need for Comptroller General Instructions to issue changes to payroll procedures.

Section, Subsection	Auditor General's Reference (1985 Report)

F. STATUS OF FINDINGS IN PREVIOUS REPORTS OF THE AUDITOR GENERAL

F1. Government Accounting Policies

F 1.1 Capital Financing Authorities

P. 33
1981 2.4

See comments in D1 of this report.

F 1.2 Valuation of Pension Fund Investments

P. 33
1983 1.11

A review of the Government's accounting policy on the valuation of pension fund investments will be carried out when the Canadian Institute of Chartered Accountants has completed its evaluation of appropriate accounting principles and practices in respect of deferral and amortization policy for pension accounts.

F 2. Financial Statements

F 2.1 Hospital Insurance Fund

P. 34
1979 7.40
and 7.41

The legislation to remove this conflict received Royal Assent on February 21, 1985 as part of the *Health Statutes Amendment Act, 1985*. This Act will be proclaimed once work on the accompanying Regulations has been completed.

F 2.2 MLA Superannuation Account

P. 34
1982 2.16

Legislation contained in Section 2 of Bill 37, the *Pension (Miscellaneous Amendments) Act, 1985*, makes the changes recommended by the Auditor General to bring the Members of the Legislative Assembly Superannuation Plan into line with that of Public Service Employees. This section is deemed to have come into force on October 1, 1980 and is retroactive to that date. The Bill was given Royal Assent in February, 1985.

F 3. Internal Control

F 3.1 MINISTRY OF ENERGY, MINES AND PETROLEUM RESOURCES

P. 35
1983 3.23

The Ministry of Energy, Mines and Petroleum Resources will soon be developing procedures to ensure that those performance deposits which are not currently recorded as trust accounts will be properly disclosed. Improvements which have been made to the ministry's general ledger system should result in more timely information regarding these trust assets.

F 3.2 MINISTRY OF FINANCE

F 3.2.1 Leave Management System

P. 35
1982 3.16

The Leave Management System will be made redundant once the new Personnel Management Information System has been completed and implemented by the Ministry of the Provincial Secretary and Government Services.

F 3.2.2 Control of Bank Accounts

P. 35
1983 3.9

See comments in E3 of this report.

Section, Subsection	Auditor General's Reference (1985 Report)

F 3.2.3 Bank Reconciliations

P. 35
1983 3.11

Substantial improvements have been implemented in the bank reconciliation section. Additional staff have been added to clear a backlog of work and complete reconciliations on a more timely basis. Reconciling items are now addressed immediately and all items are cleared within an acceptable period of time.

Other areas of improvement:

- the monthly reconciliation of the general account is more easily audited due to an improved system of cross referencing;
- prompt follow up is given to all reconciling items;
- more standardized reconciliation summary pages have been developed;
- a fully updated procedures manual has been compiled, incorporating procedures which require evidence of management review on reconciliations, and
- steps have been taken to obtain "bank paid" data sooner so that more timely reconciliations can be made.

For the future, a project has been initiated to improve the system support of the bank reconciliation function. Improvements will eliminate some of the manual effort currently required to perform the reconciliation.

F 3.3 MINISTRY OF HUMAN RESOURCES

P. 36
1983 3.33

Improvements currently being implemented to the Guaranteed Available Income for Need (GAIN) payment system address most of the concerns identified by the Auditor General. Implementation in the Ministry is scheduled to be completed in September, 1985. As part of the implementation of these improvements, better separation of duties is being achieved and there has been extensive training of staff. Representatives of the Office of the Comptroller General have been closely monitoring the development of the new system.

The one area of concern remaining to the Ministry is that of imprest cheques issued by the field offices. The enhancements to the computer system will reduce the need to issue these cheques by speeding the response of the payment system to data submitted by the field offices. Additional enhancements to the GAIN payment system have been developed to provide improved controls over imprest cheques. These enhancements are scheduled for implementation in December, 1985.

F 3.4 MINISTRY OF PROVINCIAL SECRETARY AND GOVERNMENT SERVICES

F 3.4.1 Queen's Printer Payments

P. 37
1983 3.30

The Queen's Printer has fully implemented procedures for the 1986 fiscal year to ensure that no invoices are paid prior to receipt of proof of the goods being received.

F 3.4.2 Superannuation Accounting

P. 37
1983 3.44

See comments in H2 of this report.

Section, Subsection	Auditor General's Reference (1985 Report)

G. COMPREHENSIVE AUDITS

G 1. MINISTRY OF AGRICULTURE AND FOOD

G 1.1 Mission Clarification

P. 45-46
6.21-6.27

As indicated in the Auditor General's 1985 Report, the Ministry has developed a mission statement which articulates the new focus which has come about in recent years. This statement message is currently being disseminated throughout the Ministry. Plans for accomplishing the mission are under development and some changes to the organization have already taken place.

G 1.2 Program Coordination

P. 46-48
6.28-6.33

Since the Ministry's initial response in the Auditor General's 1985 Report, further changes have been made to the organization structure in order to improve program coordination. In addition, more stress has been placed on the marketing programs.

G 1.3 Control and Efficiency

P. 48-49
6.34-6.38

The Ministry has classified areas of financial responsibility in order to remove any misunderstanding regarding specific functions. The Ministry has also reviewed its organization and considered possible opportunities for consolidation and amalgamation. Some amalgamation has already taken place and more will occur in the future.

G 1.4 Management Skills

P. 49
6.39-6.43

Recently all managers attended courses on performance evaluation and certain managers have taken advantage of in-house computer courses. A number of people in the Ministry have attended the five day Government Financial Management and Control Course, and other Ministry staff are being encouraged to attend.

The Ministry also intends to present seminars on financial management and budgeting.

G 1.5 Accountability Reporting

P. 50
6.44-6.47

The Ministry has reviewed the recommendations made in the comprehensive audit conducted on Ministry Annual Reports, and intends to implement a number of changes. As stated in the Ministry's response contained in the Auditor General's 1985 Report, changes to both the Annual Report and the internal information system have been initiated.

G 2. MINISTRY ANNUAL REPORTS

P. 59-66
7.18-7.56

The ministries are in agreement with most of the points raised by the Auditor General in this evaluation. Consideration will be given both to those general points raised in the Auditor General's report and the specific points raised with each ministry in the preparation of their future annual reports.

In a number of instances, the ministry annual report for the last period had already gone to press, so the full effect of these recommendations will not be felt until reporting is done for the current year.

Section, Subsection	Auditor General's Reference (1985 Report)

H. PUBLIC BODIES

H 1. Financial Statement Deadlines

P. 70-71 8.4

Enhanced efforts will be made to obtain the required audited financial information from those entities which are to be included in the Consolidated Financial Statements in sufficient time to meet the deadline.

H 2. Superannuation Commission Accounting

P. 71-72 8.7-8.10

The Superannuation Commission recognizes the importance of timeliness in the presentation of financial information, and has set as an objective the production of financial statements within three months. For fiscal year 1984/85, this objective has been met for all funds.

In addition to the other improvements noted by the Auditor General, the Commission has made the following organizational changes. The review of computer generated reports has been made the responsibililty of the financial function. This change should improve internal control and enable Commission staff to work on important reconciliations which, in the past, were not maintained on a timely basis.

The Commission anticipates having a detailed internal audit program in place by late 1985.

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I PROGRESS INDEX

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G1. Ministry of Agriculture and Food			
G1.1 Mission Clarification	**6.21-6.27**	**45**	Resolved.
G1.2 Program Coordination	**6.28-6.33**	**46**	Action being taken.
G1.3 Control and Efficiency	**6.34-6.38**	**48**	Action being taken.
G1.4 Management Skills	**6.39-6.43**	**49**	Action being taken.
G1.5 Accountability Reporting	**6.44-6.47**	**50**	Action being taken.
G2. Ministry Annual Reports	**7.18-7.56**	**59**	Action being taken.
H PUBLIC BODIES			
H1. Financial Statement Deadlines	**8.4**	**70**	Action to be taken.
H2. Superannuation Commission Accounting	**8.7-8.10**	**71**	Action being taken.

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